

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
COOPERATIVE BOARD MEMBERS AND OFFICIAL NEWSPAPER  
June 30, 2010

Member School Districts

Arlington School District No. 38-1  
Britton-Hecla School District No. 45-4  
Castlewood School District No. 28-1  
Clark School District No. 12-2  
De Smet School District No. 38-2  
Deubrook School District No. 5-6  
Deuel School District No. 19-4  
Elkton School District No. 5-3  
Enemy Swim Day School  
Estelline School District No. 28-2  
Florence School District No. 14-1  
Grant-Deuel School District No. 25-3  
Hamlin School District No. 28-3  
Henry School District No. 14-2  
Iroquois School District No. 02-3  
Lake Preston School District No. 38-3  
Rosholt School District No. 54-4  
Sioux Valley School District No. 5-5  
Summit School District No. 54-6  
Waubay School District No. 18-3  
Waverly-South Shore School District No. 14-5  
Webster School District No. 18-4  
Willow Lake School District No. 12-3  
Wilmot School District No. 54-7

Board of Directors –  
Board Members from  
School Districts

Garth Johnson  
Roger Gresh  
Barry Little  
John Guest  
Norman Koehlmoos  
Carie Knutson  
Paul Witte  
Tim Bauer  
Janell Bearhill  
Linda Mennenga  
Sharon Morrison  
Lyn Larson  
Paul Roe  
Guy Fish  
Mary Jane Fast  
Brian Nelson  
Mary Jo Pearson  
Tom Kleinjan, President  
Corrie Quale  
Cheryl Berger  
Mark Comes  
Kathy Meland  
Jessica Michalski  
Denise Lutkemeier, Vice President

Director:

Jerry Aberle

Business Managers:

Cheryl DeWitt  
Matthew Flett

Official Newspaper:

Watertown Public Opinion

**NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201**  
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Cooperative Board  
Northeast Educational Services Cooperative No. 28-201  
Hamlin County, South Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeast Educational Services Cooperative No. 28-201, South Dakota (Cooperative), as of June 30, 2010 and for the year then ended, which collectively comprise the Cooperative's basic financial statements and have issued our report thereon dated December 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Cooperative's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Cooperative's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Current Audit Findings as item 2010-01 to be a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Cooperative's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Northeast Educational Services Cooperative's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. We did not audit the Cooperative's response and, accordingly, we express no opinion on it.

We also noted certain additional matters that we reported to management of the Cooperative in a separate communication dated December 8, 2010.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the Northeast Educational Services Cooperative No. 28-201, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

*William Neale & Co., P.C.*

Watertown, South Dakota  
December 23, 2010

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2010

**PRIOR AUDIT FINDINGS**

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**2009-01**

Finding: A significant deficiency and material weakness was reported for a lack of segregation of duties over the revenue function. The finding for a lack of segregation of duties over the revenue function has not been corrected and has been restated as current audit finding number 2010-01.

**NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201**  
**SCHEDULE OF CURRENT AUDIT FINDINGS**  
**June 30, 2010**

**CURRENT AUDIT FINDINGS**

**2010-01**

**Finding:** A material weakness was reported for a lack of segregation of duties over the revenue function resulting in decreased reliability of reported financial data and increased potential for loss of public assets.

**Analysis:** The lack of segregation of duties over the revenue function results in inadequate controls over financial reporting that could adversely affect the Cooperative's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

**Recommendation:** We recommend that the school board be cognizant of this lack of segregation of duties over the revenue function and attempt to provide compensating internal controls whenever and wherever possible and practical.

**Response:** The school board has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties over the revenue function. The Cooperative is aware of this problem and is attempting to provide compensating internal controls whenever and wherever possible and practical.

## INDEPENDENT AUDITORS' REPORT

Cooperative Board  
Northeast Educational Services Cooperative No. 28-201  
Hamlin County, South Dakota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northeast Educational Services Cooperative No. 28-201, South Dakota (Cooperative), as of June 30, 2010, and for the year then ended, which collectively comprise the Cooperative's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northeast Educational Services Cooperative No. 28-201, South Dakota, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2010 on our consideration of the Cooperative's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Budgetary Comparison Schedules on pages 24 through 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Cooperative has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*William Neale & Co., P.C.*

Watertown, South Dakota  
December 23, 2010

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
STATEMENT OF NET ASSETS  
June 30, 2010

	Governmental Activities
<b>ASSETS:</b>	
Cash and Cash Equivalents	\$ 1,161,930.80
Savings Certificates	257,577.42
Other Assets	150,804.39
Capital Assets:	
Land, Improvements & Construction in Progress	1,451.00
Other Capital Assets, Net of Depreciation	<u>287,857.00</u>
Total Assets	<u>1,859,620.61</u>
<b>LIABILITIES :</b>	
Accounts Payable	51,004.67
Other Current Liabilities	305,505.37
Deferred Revenue	<u>208,797.62</u>
Total Liabilities	<u>565,307.66</u>
<b>NET ASSETS:</b>	
Invested in Capital Assets	289,308.00
Restricted for:	
Special Education	956,357.49
Unrestricted	<u>48,647.46</u>
TOTAL NET ASSETS	<u>\$ 1,294,312.95</u>

The notes to the financial statements are an  
integral part of this statement.



NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for	Operating	Capital	Changes in Net Assets
		Services	Grants and	Grants and	Primary Government
			Contributions	Contributions	Governmental
					Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 1,050,852.60	\$ 1,143,521.51	\$ -	\$ -	\$ 92,668.91
Support Services	<u>2,990,062.95</u>	<u>2,605,171.71</u>	<u>262,192.45</u>	<u>-</u>	<u>(122,698.79)</u>
Total Governmental Activities	<u>4,040,915.55</u>	<u>3,748,693.22</u>	<u>262,192.45</u>	<u>-</u>	<u>(30,029.88)</u>
Total Primary Government	<u>\$ 4,040,915.55</u>	<u>\$ 3,748,693.22</u>	<u>\$ 262,192.45</u>	<u>\$ -</u>	<u>(30,029.88)</u>
General Revenues:					
Unrestricted Investment Earnings					
					26,299.35
Other General Revenues					
					<u>38,891.29</u>
Total General Revenues					
					<u>65,190.64</u>
Change in Net Assets					
					35,160.76
Net Assets - Beginning					
					<u>1,259,152.19</u>
Net Assets - Ending					
					<u>\$ 1,294,312.95</u>

The notes to the financial statements are an  
integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2010

	General Fund	Special Education Fund	Total Governmental Funds
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 156,375.25	\$ 1,005,555.55	\$ 1,161,930.80
Savings Certificates	-	257,577.42	257,577.42
Accounts Receivable, Net	869.79	3,117.68	3,987.47
Due from Other Governments	76,915.71	65,547.76	142,463.47
Interest Receivable	-	3,353.45	3,353.45
Deposits	1,000.00	-	1,000.00
<b>TOTAL ASSETS</b>	<b>\$ 235,160.75</b>	<b>\$ 1,335,151.86</b>	<b>\$ 1,570,312.61</b>
<b>LIABILITIES AND FUND BALANCES:</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 9,884.65	\$ 41,120.02	\$ 51,004.67
Contracts Payable	-	233,243.86	233,243.86
Payroll Deductions and Withholdings and Employer Matching Payable	-	72,261.51	72,261.51
Deferred Revenue	176,628.64	32,168.98	208,797.62
<b>Total Liabilities</b>	<b>186,513.29</b>	<b>378,794.37</b>	<b>565,307.66</b>
<b>Fund Balances:</b>			
<b>Unreserved Fund Balances:</b>			
Designated for Next Year's Budget	-	415,847.77	415,847.77
Designated for Unemployment	830.54	-	830.54
Undesignated	47,816.92	540,509.72	588,326.64
<b>Total Fund Balances</b>	<b>48,647.46</b>	<b>956,357.49</b>	<b>1,005,004.95</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 235,160.75</b>	<b>\$ 1,335,151.86</b>	<b>\$ 1,570,312.61</b>

The notes to the financial statements are an  
integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
June 30, 2010

Total Fund Balances - Governmental Funds	\$ 1,005,004.95
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	Cost of capital assets	523,720.00	
	Accumulated depreciation	<u>(234,412.00)</u>	
	Net		<u>289,308.00</u>

Net Assets - Governmental Funds	<u><u>\$ 1,294,312.95</u></u>
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The notes to the financial statements are an  
integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2010

	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
<b>Tuition and Fees:</b>			
Regular Day School Tuition	\$ -	\$ 690,327.01	\$ 690,327.01
Summer School Fees	-	57,023.93	57,023.93
<b>Earnings on Investments and Deposits</b>	3,088.96	23,210.39	26,299.35
<b>Other Revenue from Local Sources:</b>			
Contributions & Donations	-	200.00	200.00
Services Provided Other LEAs	66,045.58	5,000.00	71,045.58
Other	73,083.23	2,721,090.45	2,794,173.68
<b>Revenue from State Sources:</b>			
<b>Grants-in-Aid:</b>			
Unrestricted Grants-in-Aid	-	151,029.18	151,029.18
Other State Revenue	118,291.81	56,442.50	174,734.31
<b>Revenue from Federal Sources:</b>			
<b>Grants-in-Aid:</b>			
Restricted Grants-in-Aid Received from Federal Government Through the State	<u>107,007.12</u>	<u>4,156.15</u>	<u>111,163.27</u>
<b>Total Revenues</b>	<u>367,516.70</u>	<u>3,708,479.61</u>	<u>4,075,996.31</u>
<b>Expenditures:</b>			
<b>Current:</b>			
<b>Instruction:</b>			
<b>Regular Programs:</b>			
Elementary	67,085.23	-	67,085.23
<b>Special Programs:</b>			
Programs for Special Education	-	976,793.37	976,793.37
<b>Support Services:</b>			
<b>Pupils:</b>			
Guidance	-	23,490.63	23,490.63
Psychological	-	426,947.16	426,947.16
Speech Pathology	-	805,587.98	805,587.98
Student Therapy	-	703,940.60	703,940.60
<b>Instructional Staff:</b>			
Improvement of Instruction	286,030.79	160,458.72	446,489.51
Educational Media	-	26,324.89	26,324.89
<b>General Administration:</b>			
Board of Education	-	67,760.24	67,760.24
Executive Administration	42,684.57	74,144.06	116,828.63

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2010

	General Fund	Special Education Fund	Total Governmental Funds
Business:			
Fiscal Services	-	108,330.83	108,330.83
Operation and Maintenance of Plant	-	27,055.28	27,055.28
Operation and Maintenance of Vehicles	1,417.35	78,033.81	79,451.16
Pupil Transportation	5,998.00	-	5,998.00
Special Education:			
Administrative Costs	-	109,640.16	109,640.16
Capital Outlay	<u>5,157.36</u>	<u>20,157.64</u>	<u>25,315.00</u>
Total Expenditures	<u>408,373.30</u>	<u>3,608,665.37</u>	<u>4,017,038.67</u>
Excess of Revenues Over (Under) Expenditures	<u>(40,856.60)</u>	<u>99,814.24</u>	<u>58,957.64</u>
Other Financing Sources (Uses):			
Sale of Surplus Property	-	5,715.00	5,715.00
Compensation for Loss of Capital Assets	<u>-</u>	<u>4,175.00</u>	<u>4,175.00</u>
Total Other Financing Sources (Uses):	<u>-</u>	<u>9,890.00</u>	<u>9,890.00</u>
Net Change in Fund Balance	(40,856.60)	109,704.24	68,847.64
Fund Balance - Beginning	<u>89,504.06</u>	<u>846,653.25</u>	<u>936,157.31</u>
FUND BALANCE - ENDING	<u>\$ 48,647.46</u>	<u>\$ 956,357.49</u>	<u>\$ 1,005,004.95</u>

The notes to the financial statements are an  
integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ 68,847.64

Amounts reported for governmental activities in the  
statement of activities are different because:

<p>Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>	<p>Capital Outlays  Depreciation Expense</p>	<p>25,315.00  <u>(46,661.88)</u></p>	<p>(21,346.88)</p>
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<p>In the statement of activities, gains (\$80.00) and losses (\$2,530.00) on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds (\$9,890.00) from the disposal of capital assets are reflected, regardless of whether a gain or loss is realized.</p>	<p><u>(12,340.00)</u></p>
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Change in Net Assets of Governmental Activities	<p><u><u>\$ 35,160.76</u></u></p>
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The notes to the financial statements are an  
integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2010

	<u>Agency Funds</u>
ASSETS:	
Cash and Cash Equivalents	<u>\$ 2,330.72</u>
Total Assets	<u>2,330.72</u>
LIABILITIES:	
Amounts Held for Others	<u>2,330.72</u>
Total Liabilities	<u>2,330.72</u>
NET ASSETS	<u>\$ -</u>

The notes to the financial statements are an  
integral part of this statement.

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Cooperative conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Financial Reporting Entity:

The reporting entity of Northeast Educational Services Cooperative No. 28-201 (Cooperative), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Cooperative is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the Cooperative (primary government). The Cooperative may also be financially accountable for another organization if that organization is fiscally dependent on the Cooperative. The Cooperative does not have any component units.

The Cooperative is a joint venture that is composed of twenty-four school districts. The Cooperative was formed for the purpose of assisting the member school districts in providing appropriate educational services for all children and to offer, on a cooperative fee assessment basis, services that the member school districts would not be able to provide as effectively or as economically acting alone. Assessments are made based on each member school district's enrollment as listed in the State of South Dakota – Division of Education – Educational Directory. The members of the Cooperative and their relative percentage participation are as follows:

Arlington School District No. 38-1	4.18%
Britton-Hecla School District No. 45-4	6.89%
Castlewood School District No. 28-1	3.97%
Clark School District No. 12-2	5.06%
De Smet School District No. 38-2	4.11%
Deubrook School District No. 5-6	5.25%
Deuel School District No. 19-4	6.89%
Elkton School District No. 5-3	4.42%
Enemy Swim Day School	1.94%
Estelline School District No. 28-2	3.56%
Florence School District No. 14-1	3.15%
Grant-Deuel School District No. 25-3	2.26%
Hamlin School District No. 28-3	9.26%
Henry School District No. 14-2	2.41%
Iroquois School District No. 02-3	2.12%
Lake Preston School District No. 38-3	2.98%
Rosholt School District No. 54-4	3.04%
Sioux Valley School District No. 5-5	8.38%



NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2010

Summit School District No. 54-6	1.65%
Waubay School District No. 18-3	2.43%
Waverly-South Shore School District No. 14-5	3.29%
Webster School District No. 18-4	6.61%
Willow Lake School District No. 12-3	2.76%
Wilmot School District No. 54-7	3.39%

The governing board is composed of one representative from each member school district, who is a school board member of the member school district. The governing board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

b. Basis of Presentation:

*Government-wide Financial Statements:*

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Cooperative's government-wide financial statements include only governmental activities.

The Statement of Net Assets reports all financial and capital resources, in a net assets form (assets minus liabilities equal net assets). Net assets are displayed in three components, as applicable, invested in capital assets net of related debt, restricted (distinguishing between major categories of restrictions), and unrestricted.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Cooperative's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Cooperative or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

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3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the Cooperative financial reporting entity are described below within their respective fund types:

**Governmental Funds:**

**General Fund** – A fund established by South Dakota Codified Laws (SDCL) 13-16-3 to meet all the general operational costs of the cooperative, excluding capital outlay fund and special education fund expenditures. The General Fund is always a major fund.

*Special Revenue Funds* – special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**Special Education Fund** – A fund established by SDCL 13-37-16 to pay the costs for the special education of all children in need of special assistance and prolonged assistance who reside within the member school districts. This fund is financed by grants and assessments charged to the member school districts. This is a major fund.

**Fiduciary Funds:**

Fiduciary funds consist of the following sub-categories and are never considered to be major funds.

*Agency Funds* – agency funds are used to account for resources held by the Cooperative in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The Cooperative maintains agency funds for the purpose of accounting for the assets held in a trustee capacity for employees and member school districts.

c. **Measurement Focus and Basis of Accounting:**

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

**Measurement Focus:**

*Government-wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

*Fund Financial Statements:*

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the fiduciary fund types.

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**Basis of Accounting:**

*Government-wide Financial Statements:*

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets generally are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

*Fund Financial Statements:*

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the Cooperative is 60 days. The revenues which are accrued at June 30, 2010 are the amounts due from the participating member school districts, State, and Federal government through the State. Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Expenditures generally are recognized when the related fund liability is incurred.

All fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications:

*Government-wide Financial Statements*

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified in order to minimize the grossing-up effect on assets and liabilities within the governmental activities column of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental activities column.

*Fund Financial Statements*

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance reserve account which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

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The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Financial Statements:*

All capital assets are valued at historical cost. Donated capital assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of general capital assets are not capitalized along with other capital asset costs.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide financial statements are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ 1,000	N/A	N/A
Buildings	\$ 50,000	Straight-line	50 yrs.
Machinery and Equipment	\$ 5,000	Straight-line	5-10 yrs.

Land is an inexhaustible capital asset and is not depreciated.

*Fund Financial Statements:*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the appropriate governmental fund upon acquisition.

f. Program Revenues:

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the Cooperative's taxpayers or citizenry, as a whole. Program revenues are classified into three categories as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

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g. Equity Classifications:

*Government-wide Financial Statements:*

Equity is classified as net assets and is displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

*Fund Financial Statements:*

Governmental fund equity is classified as fund balance, and may distinguish between “Reserved” and “Unreserved” components. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

h. Application of Net Assets:

It is the Cooperative’s policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

2. **DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK**

The Cooperative follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

**Deposits** – The Cooperative’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

**Investments** – In general, SDCL 4-5-6 permits school district funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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June 30, 2010

**Credit Risk**

State law limits eligible investments for the Cooperative, as discussed above. The Cooperative has no investment policy that would further limit its investment choices.

**Custodial Credit Risk – Deposits**

The risk that, in the event of a depository failure, the Cooperative's deposits may not be returned to it. The Cooperative does not have a deposit policy for custodial credit risk. As of June 30, 2010, the Cooperative's deposits in financial institutions were not exposed to any custodial credit risk.

**Custodial Credit Risk - Investments**

The risk that, in the event of the failure of the counterparty to a transaction, the Cooperative will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

As of June 30, 2010, the Cooperative did not have any investments.

**Interest Rate Risk**

The Cooperative does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Assignment of Investment Income**

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Cooperative's policy has been to credit all income from deposits and investments to the fund making the investment.

**3. RECEIVABLES AND PAYABLES**

Receivables and payables are not aggregated in these financial statements. The Cooperative expects all receivables to be collected within one year. All receivables are considered collectible; therefore, no allowances for estimated uncollectibles have been established.

**4. INVENTORY**

Inventory held for consumption is stated at the cost. The cost valuation method is first in, first out (FIFO).

In the government-wide financial statements and the fund financial statements, the inventory was recorded using the consumption method.

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June 30, 2010

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2010 is as follows:

	Balance 7/1/09	Increases	Decreases	Balance 6/30/10
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,451.00	\$ -	\$ -	\$ 1,451.00
Capital assets, being depreciated:				
Buildings	58,849.00	-	-	58,849.00
Machinery and Equipment	495,505.00	25,315.00	(57,400.00 )	463,420.00
Total	554,354.00	25,315.00	(57,400.00 )	522,269.00
Less: accumulated depreciation for:				
Buildings	4,707.92	1,176.98	-	5,884.90
Machinery and Equipment	228,102.20	45,484.90	(45,060.00 )	228,527.10
Total accumulated depreciation	232,810.12	46,661.88	(45,060.00 )	234,412.00
Total capital assets, being depreciated, net	321,543.88	(21,346.88 )	12,340.00	287,857.00
Governmental activity capital assets, net	\$ 322,994.88	\$ (21,346.88 )	\$ 12,340.00	\$ 289,308.00

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Instruction	\$ 6,974.00
Support Services	39,687.88
Total depreciation expense – governmental activities	<u>\$ 46,661.88</u>

6. RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

Fund	Restricted By	Amount
Special Education	Law	\$ 956,357.49
Total Restricted Net Assets		<u>\$ 956,357.49</u>

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June 30, 2010

7. RETIREMENT PLAN

All employees, working more than 20 hours per week during the school year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Cooperative's share of contributions to the SDRS for the fiscal years ended June 30, 2010, 2009, and 2008 were \$134,016.58, \$154,249.68, and \$156,002.38, respectively, equal to the required contributions each year.

8. RISK MANAGEMENT

The Cooperative is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended June 30, 2010, the Cooperative managed its risks as follows:

Employee Health Insurance:

The Cooperative joined the South Dakota School District Health Benefits Fund. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Cooperative pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage also includes a \$2,000,000.00 lifetime maximum payment per person.

The Cooperative does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The Cooperative purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The Cooperative purchases liability insurance for worker's compensation from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.



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June 30, 2010

Unemployment Benefits:

The Cooperative has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The Cooperative has designated equity in the General Fund in the amount of \$830.54 for the payment of future unemployment benefits.

During the year ended June 30, 2010, one claim was filed for unemployment benefits. This claim resulted in the payment of benefits in the amount of \$309.00. At June 30, 2010, no claims had been filed and were outstanding. It is not anticipated that any additional claims for unemployment benefits will be filed in the next fiscal year.

9. LITIGATION

At June 30, 2010, the Cooperative was not involved in any litigation.

## **REQUIRED SUPPLEMENTARY INFORMATION**

REQUIRED SUPPLEMENTARY INFORMATION  
NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
GENERAL FUND  
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Earnings on Investments and Deposits	\$ -	\$ -	\$ 3,088.96	\$ 3,088.96
Other Revenue from Local Sources:				
Services Provided Other LEAs	184,673.71	192,637.15	66,045.58	(126,591.57)
Other	84,508.33	84,508.33	73,083.23	(11,425.10)
Revenue from State Sources:				
Other State Revenue	105,736.44	123,649.30	118,291.81	(5,357.49)
Revenue from Federal Sources:				
Grants-in-Aid:				
Restricted Grants-in Aid Received from Federal Government through the State	119,242.23	123,951.03	107,007.12	(16,943.91)
Total Revenues	494,160.71	524,745.81	367,516.70	(157,229.11)
Expenditures:				
Instruction:				
Regular Programs:				
Elementary	72,508.34	72,508.34	67,085.23	5,423.11
Support Services:				
Instructional Staff:				
Improvement of Instruction	409,652.37	440,237.47	291,188.15	149,049.32
General Administration:				
Executive Administration	43,505.65	43,505.65	42,684.57	821.08
Business:				
Operation and Maintenance of Vehicles	-	-	1,417.35	(1,417.35)
Pupil Transportation	12,000.00	12,000.00	5,998.00	6,002.00
Total Expenditures	537,666.36	568,251.46	408,373.30	159,878.16
Excess of Revenues Over (Under) Expenditures	(43,505.65)	(43,505.65)	(40,856.60)	2,649.05
Net Change in Fund Balances	(43,505.65)	(43,505.65)	(40,856.60)	2,649.05
Fund Balance - Beginning	89,504.06	89,504.06	89,504.06	-
FUND BALANCE - ENDING	\$ 45,998.41	\$ 45,998.41	\$ 48,647.46	\$ 2,649.05

REQUIRED SUPPLEMENTARY INFORMATION  
NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
SPECIAL EDUCATION FUND  
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
<b>Tuition and Fees:</b>				
Regular Tuition	\$ 731,095.09	\$ 731,095.09	\$ 690,327.01	\$ (40,768.08)
Summer School Fees	-	57,023.94	57,023.93	(0.01)
<b>Earnings on Investments and Deposits</b>	15,000.00	15,000.00	23,210.39	8,210.39
<b>Other Revenue from Local Sources:</b>				
Contributions & Donations	-	-	200.00	200.00
Services Provided Other LEAs	-	-	5,000.00	5,000.00
Other	2,710,378.54	2,710,378.54	2,721,090.45	10,711.91
<b>Revenue from State Sources:</b>				
<b>Grants-in-Aid:</b>				
Unrestricted Grants-in-Aid	183,198.16	183,198.16	151,029.18	(32,168.98)
Other State Revenue	35,000.00	35,000.00	56,442.50	21,442.50
<b>Revenue from Federal Sources:</b>				
<b>Grants-in-Aid:</b>				
Restricted Grants-in-Aid Received from Federal Government Through the State	-	3,905.40	4,156.15	250.75
<b>Total Revenues</b>	<u>3,674,671.79</u>	<u>3,735,601.13</u>	<u>3,708,479.61</u>	<u>(27,121.52)</u>
<b>Expenditures:</b>				
<b>Instruction:</b>				
<b>Special Programs:</b>				
Programs for Special Education	960,155.80	1,017,179.74	976,793.37	40,386.37
<b>Support Services:</b>				
<b>Pupils:</b>				
Guidance	23,775.63	23,775.63	23,490.63	285.00
Psychological	435,552.97	435,552.97	426,947.16	8,605.81
Speech Pathology	854,188.74	854,188.74	805,587.98	48,600.76
Student Therapy	777,594.00	777,594.00	703,940.60	73,653.40
<b>Instructional Staff:</b>				
Improvement of Instruction	188,107.84	192,013.24	160,458.72	31,554.52
Educational Media	37,150.42	37,150.42	28,982.53	8,167.89
<b>General Administration:</b>				
Board of Education	99,079.50	99,079.50	67,760.24	31,319.26
Executive Administration	210,517.31	210,517.31	74,144.06	136,373.25
<b>Business:</b>				
Fiscal Services	122,870.68	122,870.68	108,330.83	14,539.85
Operation and Maintenance of Plant	65,382.50	65,382.50	27,055.28	38,327.22
Operation and Maintenance of Vehicles	152,865.00	152,865.00	95,533.81	57,331.19

REQUIRED SUPPLEMENTARY INFORMATION  
NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
SPECIAL EDUCATION FUND  
For the Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Special Education: Administrative Costs	-	-	109,640.16	(109,640.16)
Contingencies	<u>50,000.00</u>	<u>50,000.00</u>	<u>-</u>	<u>50,000.00</u>
Total Expenditures	<u>3,977,240.39</u>	<u>4,038,169.73</u>	<u>3,608,665.37</u>	<u>429,504.36</u>
Excess of Revenues Over (Under) Expenditures	<u>(302,568.60)</u>	<u>(302,568.60)</u>	<u>99,814.24</u>	<u>402,382.84</u>
Other Financing Sources (Uses):				
Sale of Surplus Property	-	-	5,715.00	5,715.00
Compensation for Loss of Capital Assets	<u>-</u>	<u>-</u>	<u>4,175.00</u>	<u>4,175.00</u>
Total Other Financing Sources (Uses):	<u>-</u>	<u>-</u>	<u>9,890.00</u>	<u>9,890.00</u>
Net Change in Fund Balances	(302,568.60)	(302,568.60)	109,704.24	412,272.84
Fund Balance - Beginning	<u>846,653.25</u>	<u>846,653.25</u>	<u>846,653.25</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 544,084.65</u>	<u>\$ 544,084.65</u>	<u>\$ 956,357.49</u>	<u>\$ 412,272.84</u>

NORTHEAST EDUCATIONAL SERVICES COOPERATIVE NO. 28-201  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2010

1. BASIS OF PRESENTATION

The Budgetary Comparison Schedules have been prepared on the modified accrual basis of accounting. The Budgetary Comparison Schedules present capital outlay expenditures within each function while the financial statements prepared in conformity with USGAAP present capital outlay expenditures as a separate function.

2. BUDGETS AND BUDGETARY ACCOUNTING

The Cooperative followed these procedures in establishing the budgetary data reflected in the schedules:

1. Prior to the first regular board meeting in May of each year the school board causes to be prepared a proposed budget for the next fiscal year according to the budgetary standards prescribed by the Auditor General.
2. The proposed budget is considered by the school board at the first regular meeting held in the month of May of each year.
3. The proposed budget is published for public review no later than July 15 each year.
4. Public hearings are held to solicit taxpayer input prior to the approval of the budget.
5. Before October 1 of each year, the school board must approve the budget for the ensuing fiscal year for each fund, except fiduciary funds.
6. After adoption by the school board, the operating budget is legally binding and actual expenditures of each fund cannot exceed the amounts budgeted, except as indicated in number 8.
7. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total school district budget and may be transferred by resolution of the school board to any other budget category, except for capital outlay, that is deemed insufficient during the year. No amount of expenditures may be charged directly to the contingency line item in the budget.
8. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows adoption of supplemental budgets when moneys are available to increase legal spending authority.
9. Unexpended appropriations lapse at year-end unless encumbered by resolution of the school board.
10. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
11. Budgets for the General Fund and each major special revenue fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).